Cambridge **TECHNICALS LEVEL 3**

BUSINESS

Unit 13

Management accounting

D/507/8160

Guided learning hours: 60

Version 3 Assessment guidance and Opportunities for applying learning across units updated - August 2016

Cambridge
TECHNICALS
2016

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Guided learning hours: 60

Essential resources required for this unit: None

This unit is internally assessed and externally moderated by OCR.

UNIT AIM

All businesses have to spend money before they can make a profit, and when they spend money, they incur costs. For you to make a success of a business, finance or accounting career, it is vital that you understand the key areas of management accounting.

All businesses require the ability to use management accounting information, for the purposes of planning and control of cash and other resources. You will gain an understanding of the nature of these costs, and the impact of these costs on expanding the organisation, or increasing business activity. This will include developing an understanding of the pricing methods used by businesses. Appropriate pricing of an organisation's products or services will play a large part in its future profitability.

This unit will look at costing and budgeting, and how to use current or historical financial data, to plan for the effective finances and costs of the business for the future. You will develop your ability to critically analyse information, to help with both short-term and long-term decision making, and analyse variances between actual and predicted data. As part of your study, you will learn to assess and make judgements on a range of business projects using capital investment appraisal techniques.

You will gain an understanding of how break-even analysis allows managers to assess optimum activity levels, and how historical data can be used to look for trends that can forecast more accurately the figures that are used in budgets.

On completion of this unit, you will have a good appreciation of the skills and understanding necessary to manage the finances of an organisation, be able to assess the problems highlighted by variance analysis, and make realistic decisions on the likely courses of action.

You can build on your skills by studying the other Accounting units in this qualification.

TEACHING CONTENT

The teaching content in every unit states what has to be taught to ensure that learners are able to access the highest grades.

Anything which follows an i.e. details what must be taught as part of that area of content. Anything which follows an e.g. is illustrative. It should be noted that where e.g. is used, learners must know and be able to apply relevant examples in their work, although these do not need to be the same ones specified in the unit content.

For internally-assessed units you need to ensure that any assignments you create, or any modifications you make to an assignment, do not expect the learner to do more than they have been taught, but must enable them to access the full range of grades as described in the grading criteria.

Learning outcomes The Learner will:	Teaching content Learners must be taught:
1. Understand business costs and pricing methods used by businesses	1.1 Definitions and examples of business costs, i.e. • fixed costs (e.g. rent, salaries, interest payable on loans) • indirect costs (e.g. managers' salaries, head office expenses) • variable costs (e.g. wages, heat and light) • direct costs (e.g. raw materials, power usage, royalties) • semi-variable costs (e.g. telephone, utilities) • stepped costs (e.g. rent during expansion) • total costs • unit costs • marginal costs • opportunity cost • start-up costs • operating costs • overheads 1.2 Pricing methods, i.e. • cost-plus pricing • discounting • value-based pricing • competitive pricing 1.3 Special order decisions 1.4 Impact of pricing policies on production and costs
2. Be able to use break-even analysis	2.1 Calculations, i.e. • break-even point by use of formulae • contribution per unit • total contribution • margin of safety • contribution to sales ratio • profit/loss

Learning outcomes The Learner will:	Teaching content Learners must be taught:
	2.2 How to produce: • break-even graphs • contribution to sales (profit/volume) graphs 2.3 How to analyse: • break-even data • contribution to sales graphs 2.4 How businesses use: • break-even data • contribution to sales graphs 2.5 How to use break-even analysis to make business decisions, i.e. • make or buy • acceptance of additional work • acceptance of special orders • discontinuing a product or service based on contribution • price setting • 'what if' scenarios • optimum use of scarce resources

3. Be able to calculate budgets using budgetary techniques	3.1 How and why businesses prepare and revise budgets, i.e.
	• definition of a budget
	• purposes of budgets e.g.
	   o use of budgets for short-term target setting
	   o monitoring business performance
	   o control measures
	   o motivation to achieve performance levels
	   o monitoring the relationship between costs and revenues at different activity levels
	   o to aid communication with senior management
	
	3.2 How to prepare different types of budget, i.e.
	• sales
	• production
	• purchases
	• trade receivables (debtors)
	• trade payables (creditors)
	• cash
	
	3.3 To calculate and interpret favourable and adverse variances
	
	3.4 To use variance analysis to inform decision making

Learning outcomes	Teaching content
The Learner will:	**Learners must be taught:**
4. Be able to calculate capital investment appraisals	4.1 How to use capital investment appraisal techniques, i.e. • payback • accounting rate of return (ARR) • net present value (NPV) 4.2 Advantages and disadvantages of capital investment appraisal techniques 4.3 How to assess external factors which affect capital investment decisions (e.g. inflation, interest rates, exchange rates, employment rates) 4.4 How to assess qualitative factors which affect capital investment decisions (e.g. legislation, industry standards, staff morale, staff motivation, relationships with stakeholders) 4.5 How to interpret capital investment appraisal results and recommend decisions

5. Be able to prepare and use cash flow forecasts	5.1 The structure of a cash flow forecast, i.e.
	• timescale
	• credit periods
	• receipts, i.e.
	   o cash sales
	   o credit sales
	   o capital
	   o loans
	   o other income
	• payments, i.e.
	   o cash purchases
	   o credit purchases
	   o revenue expenditure
	   o capital expenditure
	• Value Added Tax (VAT)
	• opening and closing cash/bank balances
	• distinction between profit and cash
	
	5.2 How to improve cash flow management (i.e. increase inflow, decrease outflows, additional sources of finance (e.g. loans, overdrafts, hire purchase, lease))

GRADING CRITERIA

LO	Pass	Merit	Distinction
The learner will:	The assessment criteria which are the Pass requirements for this unit.	To achieve a Merit the evidence must show that, in addition to the Pass criteria, the candidate is able to:	To achieve a Distinction the evidence must show that, in addition to the Pass and Merit criteria, the candidate is able to:
1. Understand business costs and pricing methods used by businesses	P1*: Describe types of cost incurred and pricing methods used by a specific business		
	P2*: Explain the impact of pricing policies on production and costs for a specific business		
2. Be able to use break-even analysis	P3*: Calculate break-even from organisational costing information	M1: Assess the implications of changes in costs and revenue on break-even	
	P4*: Prepare and use a break-even chart for decision making		
	P5*: Explain the strengths and weaknesses of break-even analysis		
3. Be able to calculate budgets using budgetary techniques	P6: Prepare a budget for a specific business using budgetary techniques		
	P7: Calculate variances for a specific business based on budget and actual figures	M2: Analyse variances based on budget and actual figures and identify likely causes for the variances	D1: Recommend and justify actions a business should take based on variances
4. Be able to perform capital investment appraisals	P8*: Explain the advantages and disadvantages of capital investment appraisal techniques for a specific business decision		
	P9*: Calculate a capital investment appraisal for a specific business decision		

LO	Pass	Merit	Distinction
	P10: Interpret an organisation's capital investment appraisal results and recommend a decision		
5. Be able to prepare and use cash flow forecasts	P11*: Prepare a 12-month cash flow forecast including cash and credit sales and purchases for a specific business	M3: Analyse the cash flow position identified in a 12-month cash flow forecast for a specific business	D2: Recommend and justify the actions a specific business might take in order to improve its cash flow position
	P12*: Describe how a specific business could improve its cash flow position		

ASSESSMENT GUIDANCE

It is important for learners to have the opportunity to learn and apply their knowledge and skills to meaningful substantial tasks, in order to successfully achieve the unit.

Feedback to learners: you can discuss work-in-progress towards summative assessment with learners to make sure it's being done in a planned and timely manner. It also provides an opportunity for you to check the authenticity of the work. You must intervene if you feel there's a health and safety risk.

Learners should use their own words when producing evidence of their knowledge and understanding. When learners use their own words it reduces the possibility of learners' work being identified as plagiarised. If a learner does use someone else's words and ideas in their work, they must acknowledge it, and this is done through referencing. Just quoting and referencing someone else's work will not show that the learner knows or understands it. It has to be clear in the work how the learner is using the material they have referenced **to inform their** thoughts, ideas or conclusions.

For more information about internal assessment, including feedback, authentication and plagiarism, see the centre handbook. Information about how to reference is in the OCR *Guide to Referencing* available on our website: http://www.ocr.org.uk/i-want-to/skills-guides/.

For this unit, centres will either need to provide business data as learners will struggle to access sufficient real-life information, or provide suitable case study information. Actual business data is often too complex, and may require significant filtering.

For LO1, learners should be encouraged to consider how a business costs a product. This data could be sourced from a suitable local business or through a case study/simulation produced by the centre. This case study/simulation could be extended to give learners raw data to carry out a break-even analysis and produce a break-even chart to meet the criteria for LO2.

For LO3 and 4, business case studies or simulations will be required to ensure the learners have sufficient data to complete the tasks required.

For LO3, the learner will produce several budgets appropriate to the case study/simulation provided by the tutor. It would be beneficial to the learner if the tutor included sufficient data in the resources for the learners to complete the merit and distinction tasks based on the same case study/simulation.

For LO3, P7, learners need predicted or budgeted figures and then actual figures for the same period so the learners can work out whether the business has performed better or worse than predicted.

For LO4, it is important that the data supplied to complete the capital investment appraisal is in context to allow the learners to analyse non-financial and external factors.

For LO5, data for a limited company should be supplied to learners to complete the cash flow forecast. For M3, it may be appropriate for the learner to analyse the cash flow forecast they have produced in P11, however, it is equally acceptable for the tutor to supply a forecast for the learners to analyse.

Learners should be encouraged to use manual bookkeeping templates or accounting software but this is not a requirement.

SYNOPTIC ASSESSMENT

It will be possible for learners to make connections between other units over and above the unit containing the key tasks for synoptic assessment, please see section 6 of the centre handbook for more detail. We have indicated in this unit where these links are with an asterisk and provided more detail in the next section.

*OPPORTUNITIES FOR APPLYING LEARNING ACROSS UNITS

This identifies opportunities for developing links between teaching and learning with other units in the business suite.

Name of other unit and related LO	This unit and specified LO
Unit 1 The business environment LO4 Be able to use financial information to check the financial health of businesses	LO5 Be able to prepare and use cash flow forecasts
Unit 3 Business decisions LO2 Be able to use financial data to inform business decisions	LO1 Understand business costs and pricing methods used by businesses LO2 Be able to use break even analysis LO4 Be able to perform capital investment appraisals LO5 Be able to prepare and use cash flow forecasts
Unit 6 Marketing strategy LO5 Be able to use business tools to propose marketing strategies	LO2 Be able to use break even analysis
Unit 7 Marketing campaign LO2 Understand the elements of the marketing mix	LO1 Understand business costs and pricing methods used by businesses LO2 Be able to use break-even analysis

Name of other unit and related LO	This unit and specified LO
Unit 9 Human resources LO1 Understand the responsibilities of the human resources function and the factors that affect it	LO1 Understand business costs and pricing methods used by businesses
Unit 10 Economics for business LO1 Understand how microeconomic factors can impact on UK businesses	LO1 Understand business costs and pricing methods used by businesses
Unit 14 Resource management LO3 Understand how resource management can contribute to business performance	LO1 Understand business costs and pricing methods used by businesses
Unit 15 Change management LO4 Understand the impacts of change on businesses and stakeholders	LO4 Be able to perform capital investment appraisals
Unit 17 Responsible business practices LO1 Understand how businesses operate responsibly	LO1 Understand business costs and pricing methods used by businesses
Unit 18 Business operations LO1 Understand how business decisions influence business operations	LO1 Understand business costs and pricing methods used by businesses
Unit 19 International business LO3 Understand the international trading environment in which businesses operate	LO5 Be able to prepare and use cash flow forecasts
Unit 22 Delivering a business project LO1 Be able to scope a project LO2 Be able to collaborate to deliver a project	LO1 Understand business costs and pricing methods used by businesses. LO2 Be able to use break-even analysis LO3 Be able to calculate budgets using budgetary techniques

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